



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee

From: Michelle Mitchell, Director
Finance Department

Date: February 3, 2009

CC:

Subject: **Line of Credit Supplement to
Commercial Paper Program
Series E**

This memorandum summarizes a proposed upcoming transaction to support the City's equipment acquisitions with a supplemental line of credit. To complete this transaction, a specific Request for Council Action will be brought before City Council at a later date.

The contemplated transaction would add a line of credit, up to \$30 million in size, for appropriation and spending purposes in line with the purposes for which the City's Series E commercial paper program is currently used. The Series E commercial paper program provides appropriation capacity and "on-time" funding for the Equipment Acquisition Fund (EAF). The EAF provides for the majority of capital equipment spending for General Fund Departments. The Series E commercial paper program has also been used for various incidental acquisitions and funding needs that require short term funding until these acquisitions can be converted to traditional fixed rate bonds. The City also uses the Series E commercial paper program to provide appropriation capacity and short term funding for "reimbursable" acquisitions made by the various departments. Only a small amount of appropriation capacity currently remains available from the Series E commercial paper program. The supplemental line of credit proposed would temporarily expand that appropriation and spending capacity.

HISTORY

On October 1, 2008, City Council approved Ordinance No. 2008-0870, which authorized the issuance of City of Houston, Texas Public Improvement Refunding Bonds, Series 2008A ("PIB Series 2008A"). These bonds were intended to refund a significant portion of Series E commercial paper, among other things. Around the same time, negative credit news with respect to the bank providing liquidity support for two of the City's other commercial paper programs led to the programs trading poorly, and in some cases, not at all. Given these events, more proceeds of the PIB Series 2008A were shifted to deal with these poorly performing programs, leaving more Series E commercial paper outstanding than originally planned. This adversely impacts the capacity currently available from Series E commercial paper to deal with the City's equipment spending this year.

SUMMARY

The next planned refunding of general obligation commercial paper notes will be in the fall of 2009. It is unlikely that the current remaining capacity in the Series E commercial paper program will be sufficient to support the remaining FY2009 Equipment Acquisition Plan, the Proposed FY2010 Equipment Acquisition Plan, as well as any other various acquisitions typically supported by the Series E commercial paper program.

The Finance Working Group recommends establishing a line of credit, to be drawn as needed and not to exceed \$30 million, to support appropriation and spending which otherwise would be supported by the Series E commercial paper program. It is the intent of the Finance Working Group to refund a portion of the outstanding Series E Commercial Paper Notes as well as any draws on the line of credit at the next planned Public Improvement Bond issue in the fall of 2009.

Recommendation

The Finance Working Group recommends that the City proceed with this transaction.